

Message Text

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ACTION EB-07

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FM AMEMBSSY TAIPEI

TO SECSTATE WASHDC 9045

C O N F I D E N T I A L TAIPEI 2158

STATE PASS WILLIAMS FAS/USDA

EO 11652 GDS

TAGS ETRD TW

SUBJECT: OUTSTANDING COTTON CONTRACTS

REF: STATE 072730

1. WE CANNOT AGREE WITH FICTOR FRIEDMAN'S CONCLUSION THAT GROC IS ISGNORING ITS COMMITTEMENTS UNDER LETTER OF ASSURANCES. THE BOFT CONTINUES TO IMPOSE PENALTIES AGAINST MILLS IN DEFAULT WHICH DO NOT HAVE A REASON ACCEPTABLE TO BOFT FOR NOT OPENING LETTER OF CREDIT. THE BOFT IS ACTIVELY PURSUING REMAINING CASES AND USING BEST EFFORTS UNDER AVAILABLE AUTHORITIES TO RESOLVE DISPUTES WHICH ARE CAUSE FOR DELAY IN OPENING OF LETTERS OF CREDIT FOR MOST OPERATING MILLS WHICH REMAIN IN DEFAULT.

2. SITUATION OF MILLS REMAINING IN DEFAULT INVOLVES MANY COMPLICATIONS WHICH DIFFICULT TO RESOLVE. FOR EXAMPLE, TAY I CASE HAS BEEN SUBJECT ACTIVE DISCUSSIONS BETWEEN MILL, BOFT AND BOT FOR SEVERAL WEEKS. BASIC PROBLEM IS THAT MILL DOES NOT HAVE NECESSARY UNENCUMBERED COLLATERAL TO ASSURE REPAYMENT OF LOAN TO BOT. BOT NOT WILLING ACCEPT THIS HIGH-RISK LOAN WITHOUT APPROVAL HIGHEST LEVELS MINISTRY OF FINANCE WHICH HAS SO FAR NOT BEEN GRANTED IN SPITE OF NUMEROUS EMBASSY DEMARCHE. FU I CASE MENTIONED REFTEL ALSO COMPLICATED IN THAT CONTRACT WITH SUPPLIER SPECIFIES COTTON OF TYPE SANTOS 71,

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STRICT MIDDLING. MILL IS AWARE OF FACT THAT SUPPLIER CANNOT

SHIP STRICT MIDDLING GRADE AND IS USING THIS KNOWLEDGE TO ITS
BEST ADVANTAGE IN NEGOTIATIONS WITH THE SUPPLIER.

3. EMBASSY HAS BEEN IN CONTACT WITH BOFT AND/OR COTTON SPINNERS ASSOCIATION ON ABOVE TWO CASES AS WELL AS OTHER CASES REMAINING IN DEFAULT ON AN ALMOST DAILY BASIS. IN ADDITION, THE AMBASSADOR, THE ECON COUNSELOR AND AGATTACHE HAVE CONTINUED TO PURSUE THIS MATTER ON APPROPRIATE OCCASIONS WITH GROC OFFICIALS UP TO THE MINISTERIAL LEVEL. WE BELIEVE THAT THESE REPRESENTATIONS ARE SUFFICIENT TO REFUTE VICTOR FIREDMAN'S RELUCTANT CONCLUSION THAT THERE HAS BEEN A LACK OF INTEREST IN THE COTTON CONTRACT PROBLEM ON THE PART OF THE US GOVERNMENT IN RECENT MONTHS. AS WE HAVE REPORTED PREVIOUSLY, IT APPEARS THAT LETTERS OF CREDIT WILL BE OPENED FOR ABOUT ONE-THIRD OF THE BALES WHICH REMAIN IN DEFAULT. THE REMAINING 30,PP BALES ARE CONTRACTED TO MILLS WHICH EITHER DO NOT EXIST OR HAVE BEEN SOLD AND IT DOES NOT APPEAR THAT L/C'S WILL BE OPENED FOR THIS PORTION OF CONTRACTED US COTTON.

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